

COMMITTEE ON LEGISLATIVE RESEARCH  
OVERSIGHT DIVISION

**FISCAL NOTE**

L.R. No.: 4083-05  
Bill No.: SCS for HCS for HB 1675  
Subject: Employees - Employers; Economic Development  
Type: Original  
Date: April 16, 2010

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Bill Summary: This proposal provides tax incentives for qualified manufacturing facilities or qualified suppliers that create or retain jobs in Missouri.

**FISCAL SUMMARY**

<b>ESTIMATED NET EFFECT ON GENERAL REVENUE FUND</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	(\$99,259) to (Unknown)	(\$108,949 to \$15,108,949) to (Unknown)	(\$112,217 to \$15,112,217) to (Unknown)
<b>Total Estimated Net Effect on General Revenue Fund</b>	<b>(\$99,259) to (Unknown)</b>	<b>(\$108,949 to \$15,108,949) to (Unknown)</b>	<b>(\$112,217 to \$15,112,217) to (Unknown)</b>

<b>ESTIMATED NET EFFECT ON OTHER STATE FUNDS</b>			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>Other</u> State Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

Numbers within parentheses: ( ) indicate costs or losses.  
This fiscal note contains 9 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Total Estimated Net Effect on <u>All</u> Federal Funds</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
General Revenue	2 FTE	2 FTE	2 FTE
<b>Total Estimated Net Effect on FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>	<b>2 FTE</b>

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2011	FY 2012	FY 2013
<b>Local Government</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## FISCAL ANALYSIS

### ASSUMPTION

In response to a previous version of this proposal, officials for the **Office of Administration - Budget and Planning (BAP)** stated this proposal provides incentives in the form of reduced withholdings for qualified manufacturing companies or qualified suppliers that create new jobs or retain jobs. The proposal may reduce general and total state revenues to the extent that withholding incentives are granted to companies that retain jobs. This proposal may stimulate other economic activity, but BAP does not have an estimate of any induced revenues. The Department of Economic Development may have an estimate of incentives expected to be granted under this program.

Officials from the **Department of Economic Development (DED)** stated the proposed legislation provides incentives for qualified manufacturing facilities or qualified suppliers. DED assumes the proposed legislation would result in the need for two additional FTE in Business and Community Services (BCS). These FTE would be Economic Development Incentive Specialist IIIs and would be responsible for administering the program. The related costs for these FTE include one-time expenditures for systems furniture, side chairs, file cabinets, calculators and telephones and recurring costs for office supplies, computers, professional development and travel. DED assumes the cost for these FTE to total roughly \$145,000 per year.

**Oversight** assumes DED's estimate of expense and equipment cost for the new FTEs could be overstated. If DED is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly \$11,800.

Officials from the **Department of Revenue (DOR)** state their response to a proposal similar to or identical to this one in a previous session indicated the department planned to absorb the administrative costs to implement the proposal. Due to budget constraints, reduction of staff and the limitations within the department's tax systems, changes cannot be made without significant impact to the department's resources and budget. Therefore, the IT portion of the fiscal impact is estimated with a level of effort valued at \$21,306 (840 FTE hours) to make programming changes to the withholding tax processing system.

**Oversight** assumes OA-ITSD (DOR) is provided with core funding to handle a certain amount of activity each year. Oversight assumes OA-ITSD (DOR) could absorb the ITSD costs related to this proposal. If multiple bills pass which require additional staffing and duties at substantial costs, OA-ITSD (DOR) could request funding through the appropriation process.

ASSUMPTION (continued)

**DOR** also assumes the need for two additional FTE to administer the changes to the withholding tax from both manufacturers as well as suppliers. DOR assumes a cost for these additional FTE of roughly \$85,000 per year.

**Oversight** assumes DOR's estimate of expense and equipment cost for the new FTEs could be overstated. If DOR is able to use existing desks, file cabinets, chairs, etc., the estimate for equipment for fiscal year 2011 could be reduced by roughly \$11,200.

With the narrow definition of 'qualified manufacturing facility' as well as 'qualified supplier', **Oversight** will assume enough companies will qualify for the benefits of this proposal to only justify one FTE each for the Department of Economic Development and the Department of Revenue. If the program is successful and more companies qualify for the benefits than what Oversight anticipates, Oversight assumes DED and DOR could request additional FTE through the appropriations process.

**Oversight** has, for fiscal note purposes only, changed the starting salary for DOR's additional employee to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Also, Oversight assumes that the relatively small number of additional staff can be located in existing office space.

Officials from the **Department of Insurance, Financial Institutions and Professional Registration (DIFP)** state it is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted tax credits each year.

DIFP will require minimal contract computer programming to add this new tax credit to the premium tax database and can do so under existing appropriation. However, should multiple bills pass that would require additional updates to the premium tax database, the department may need to request more expense and equipment appropriation through the budget process.

ASSUMPTION (continued)

In response to a previous version of this proposal, officials from the **Office of the Secretary of State (SOS)** assumed many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact for this fiscal note to the Secretary of State's Office for Administrative Rules is less than \$2,500. The SOS recognizes that this is a small amount and does not expect that additional funding would be required to meet these costs. However, we also recognize that many such bills may be passed by the General Assembly in a given year and that collectively the costs may be in excess of what our office can sustain with our core budget. Therefore, we reserve the right to request funding for the cost of supporting administrative rules requirements should the need arise based on a review of the finally approved bills signed by the governor.

**Oversight** assumes there would be some positive economic benefit to the state as a result of the new programs in this proposal, however, Oversight considers these benefits to be indirect and therefore, have not reflected them in the fiscal note.

This substitute has an annual limit of \$15 million in withholding benefits that may be awarded to qualified manufacturing companies under this program, no earlier than January 1, 2012; therefore, Oversight will assume a range of \$0 (no companies qualify for the program) to a potential annual loss of \$15 million in withholding tax revenue for manufacturing companies. Qualified suppliers are also allowed to retain withholding taxes; however, this substitute does not state an annual limit for this part of the program. Therefore, Oversight will assume an unknown loss of withheld taxes for qualified suppliers.

**This proposal may decrease Total State Revenues.**

<u>FISCAL IMPACT - State Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
<b>GENERAL REVENUE</b>			
<u>Costs - Department of Economic Development</u>			
Personal Service (1 FTE)	(\$35,803)	(\$44,253)	(\$45,580)
Fringe Benefits	(\$18,775)	(\$23,206)	(\$23,902)
Expense and Equipment	<u>(\$8,983)</u>	<u>(\$4,293)</u>	<u>(\$4,422)</u>
<u>Total Costs - DED</u>	(\$63,561)	(\$71,752)	(\$73,904)
FTE Change - DED	1 FTE	1 FTE	1 FTE
<u>Costs - Department of Revenue</u>			
Personal Service (1 FTE)	(\$19,467)	(\$24,061)	(\$24,783)
Fringe Benefits	(\$10,208)	(\$12,618)	(\$12,996)
Expense and Equipment	<u>(\$6,023)</u>	<u>(\$518)</u>	<u>(\$534)</u>
<u>Total Costs - DOR</u>	(\$35,698)	(\$37,197)	(\$38,313)
FTE Change - DOR	1 FTE	1 FTE	1 FTE
<u>Loss - DED</u>			
Retained withholding tax from qualified manufacturing facilities	\$0	\$0 to (\$15,000,000)	\$0 to (\$15,000,000)
<u>Loss - DED</u>			
Retained withholding tax from qualified suppliers	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>	\$0 to <u>(Unknown)</u>
<b>ESTIMATED NET EFFECT TO GENERAL REVENUE FUND</b>	<b>(\$99,259) to <u>(Unknown)</u></b>	<b>(\$108,949 to \$15,108,949) to <u>(Unknown)</u></b>	<b>(\$112,217 to \$15,112,217) to <u>(Unknown)</u></b>
Estimated Net FTE Change for General Revenue Fund	2 FTE	2 FTE	2 FTE

<u>FISCAL IMPACT - Local Government</u>	FY 2011 (10 Mo.)	FY 2012	FY 2013
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

#### FISCAL IMPACT - Small Business

Small businesses that qualify for this program would be positively impacted from this proposal.

#### FISCAL DESCRIPTION

This act establishes the Manufacturing Jobs Act which allows qualified suppliers or manufacturing facilities that create or retain Missouri jobs to retain employee withholding taxes for a period of years. The total amount of withholding taxes retained by all qualified manufacturing companies under the program is limited to no more than fifteen million dollars annually.

A "qualified manufacturing facility" is defined as a business which manufactures goods in Missouri, derives more than ten percent of its total sales from goods produced at the facility which are ultimately exported outside the United States or derives more than twenty percent of its total sales from goods produced at the facility which are exported outside of Missouri, makes an additional capital investment of at least \$100,000 per full-time employee retained at the facility, manufactures a new product that has not been manufactured in Missouri by the company, and continues to manufacture such goods for a period of at least five years. The act defines a "qualified supplier" as a company which derives more than 10% of its total annual revenues from sales to a qualified manufacturing facility, adds five or more new jobs, pays wages for new jobs that are equal to or exceed the industry average wage for Missouri, and provides health insurance to employees and pays at least 50% of the insurance premiums.

The Department of Economic Development must respond to a qualified manufacturing facility or qualified supplier who provides a notice of intent to receive benefits under the program with either an approval or rejection within 30 days of receiving such notice. Failure of the department to respond will result in the notice of intent being deemed an approval.

Upon approval of a notice of intent by the department and the execution of an agreement with the department which memorializes the contents of the notice of intent including recapture and repayment provisions, a qualified manufacturing facility may retain 50% of the withholding taxes

FISCAL DESCRIPTION (continued)

from retained jobs for 10 years and remain eligible to participate in the Missouri Quality Jobs Program. Qualified manufacturing facilities are prohibited from simultaneously receiving benefits under the new or expanded business facilities program (Sections 135.100 - 135.150, RSMo), the enterprise zones program (Sections 135.200 - 135.286), the relocation of a business to a distressed community program (Section 135.535), or the rural empowerment zones program (Sections 135.900 - 135.906). If a facility is utilizing withholding taxes from the new jobs for any other state program, the taxes will first be credited to the other state program before they will begin to accrue to this program. If the facility is participating in the new jobs training program, it cannot retain any withholding taxes that are already allocated for use in that program.

Upon approval of a notice of intent by the department, a qualified supplier may retain 100% of the withholding taxes from new jobs for three years, if the supplier pays wages for such new jobs that are equal to the lesser of the county average wage or the industry average wage for Missouri provided such wage is not lower than sixty percent of the statewide average wage. If a qualified supplier pays wages for the new jobs that are equal to or greater than 120% of the industry average wage for Missouri, it can retain withholding taxes for five years.

Taxpayers awarded benefits under the Manufacturing Jobs Act that knowingly hire, or engage the services of contractors or subcontractors which knowingly hire, individuals who are not allowed to work legally in the United States will immediately forfeit benefits received and repay the state an amount equal to any withholding taxes already retained. A qualified manufacturing facility or qualified supplier that fails to comply with the provisions of the program will be required to repay all benefits previously obtained from the state with five percent interest per year from the date the benefit was originally received.

The department must submit an annual report on the manufacturing jobs program to the General Assembly by March first. The report must provide participating facilities and suppliers, the amount of benefits provided, the net state fiscal impact, and the number of new and retained jobs.

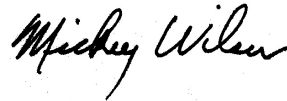
The provisions of the act will expire six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.



SOURCES OF INFORMATION

Department of Economic Development  
Department of Revenue  
Department of Insurance, Financial Institutions and Professional Registration  
Office of Administration - Budget and Planning  
Office of the Secretary of State

A handwritten signature in black ink, reading "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA  
Director  
April 16, 2010